

Inspector General

United States
Department of Defense



Recoupment of Advanced Education Costs from
Disenrolled Air Force Academy Cadets

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Acronyms and Abbreviations

ASA	Average Speed of Answer
DCIA	Debt Collection Improvement Act of 1996
DCMO	Debt and Claims Management Office
DDMS	Defense Debt Management System
DFAS	Defense Finance and Accounting Service
IAP	Interest, Administrative, and Penalty charges
USAF	United States Air Force Academy



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

August 17, 2010

MEMORANDUM FOR THE U.S. AIR FORCE JUDGE ADVOCATE GENERAL,
ADMINISTRATIVE LAW DIRECTORATE
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE

SUBJECT: Recoupment of Advanced Education Costs from Disenrolled Air Force
Academy Cadets (Report No. D-2010-076)

We are providing this report for review and comment. We performed this audit in response to a request by the Judge Advocate General, Headquarters, United States Air Force on behalf of the Vice Chief of Staff of the United States Air Force. We considered management comments on a draft of this report when preparing the final report.

DOD Directive 7650.3 requires that recommendations be resolved promptly. Based on Director, DFAS Indianapolis, comments, we revised Recommendation 4. The Director, Defense Finance and Accounting Service Indianapolis comments on Recommendations 3 and 4 were partially responsive. We request further comments from the Director, DFAS Indianapolis on Recommendations 3 and 4 by September 17, 2010.

If possible, send a .pdf file containing your comments to auddbo@dodig.mil. Copies of your comments must have the actual signature of the authorizing official for your organization. We are unable to accept the /Signed/ symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-5868 (DSN 329-5868).

A handwritten signature in cursive script, reading "Patricia A. Marsh".

Patricia A. Marsh, CPA
Assistant Inspector General
Defense Business Operations



Results in Brief: Recoupment of Advanced Education Costs from Disenrolled Air Force Academy Cadets

What We Did

The Judge Advocate General of the U.S. Air Force requested that the DOD Office of the Inspector General determine whether the collection process to recover advanced education costs from disenrolled Air Force Academy cadets was effective. We identified 130 disenrolled cadet cases totaling \$13.95 million submitted to Defense Finance and Accounting Service (DFAS) for collection from April 1988 to March 2009 and reviewed the DFAS collection process and results for these cases.

What We Found

The collection process to recover advanced education costs from disenrolled Air Force Academy cadets was not effective because DFAS did not give these debts priority and did not proactively manage their collections. Specifically, DFAS did not have a special collection protocol for large (\$50,000 or more) individual debt cases such as the advanced education debts. Controls were lacking to ensure prompt:

- establishment, initialization, and first notification to the debtor to support timely actions to recover and collect these debts, and
- resolution of suspended debts.

As a result, DFAS took, on average, 148 days to issue its first demand letter to the debtor and, on average, 551 days to make its first collection. Also, as of March 2009, the overall status of the \$13.95 million of accounts submitted to DFAS for collection was:

- \$1.81 million (13.0 percent) collected,
- \$2.52 million (18.1 percent) written off, and
- \$9.62 million uncollected, including 7.21 million (74.9 percent) that were inactive and \$3.90 million (40.5 percent) that were more than 5 years old.

What We Recommend

We recommend that the Director, Defense Finance and Accounting Service, Indianapolis, develop and implement changes in the collection process related to large debts that include advanced education costs for disenrolled Air Force Academy cadets. Specifically, establish a special collection protocol for large debts that implements procedures to:

- prioritize such debts upon receipt;
- ensure that staff begin resolution within one day of the debtor appearing on the Expired Suspense Report;
- seek collection from these larger debtors on a priority basis and make referral to management for account resolution earlier in the collection process; and
- provide specially trained and experienced staff at the Call Center to handle incoming calls from large debtors.

Management Comments and Our Response

The Director, DFAS Indianapolis, concurred with Recommendations 1 and 2 and provided responsive comments. DFAS made process modifications to prioritize the initialization of these large debts in its accounting system and to review changes in suspense status on a timelier basis. However, the Director's comments were partially responsive for Recommendations 3 and 4. We agreed with the Director and revised Recommendation 4 to remove the recommendation to establish a special phone number for large debtors. We are requesting that the Director, DFAS Indianapolis, provide additional comments on Recommendations 3 and 4. Please see the recommendations table on the back of this page.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Director, Defense Finance and Accounting Service, Indianapolis	3, 4	1, 2

Please provide comments by September 17, 2010.

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Introduction

Objective

Our audit objective was to determine whether the collection process to recover advanced education costs from disenrolled United States Air Force Academy (USAFA) cadets was effective. See the Appendix for a discussion of the scope and methodology related to the objective. Implementing the recommendations in this report will improve the collection process for these large accounts receivable.

Background

We conducted this audit in response to a request by the Judge Advocate General, Headquarters, United States Air Force on behalf of the Vice Chief of Staff of the United States Air Force based on the low cumulative collections for accounts receivable from disenrolled USAFA cadets expected to repay advanced education costs.

United States Air Force Academy

The mission of the USAFA is to educate, train, and inspire men and women to become officers of character, motivated to lead the United States Air Force in service to our nation. The President of the United States appoints cadets to the Academy. USAFA cadets sign a service agreement to serve as commissioned officers in the Air Force upon graduation.

Figure 1. The U.S. Air Force Academy Campus



Source: www.usafa.af.mil/photos

As a condition to receiving advanced education, cadets agree that if they voluntarily resign or breach their agreement and are disenrolled in their third or fourth year of school, they may be required to reimburse the United States government for the percentage of education costs equal to the period of active duty the cadet fails to complete. The Secretary of the Air Force determines whether disenrolled cadets receive an order to serve as an enlisted member of the Air Force or to reimburse the government for the cost of their education at the Academy.

Defense Finance and Accounting Service

Defense Finance and Accounting Service (DFAS) has the responsibility to collect DOD out-of-service debts (including the recovery of advanced education costs from disenrolled cadets) in accordance with the Debt Collection Improvement Act of 1996 (DCIA). One

DCIA goal is to maximize collection of delinquent debt¹ owed to the U.S. Government. One purpose of the DCIA is to maximize the collection of delinquent debts by ensuring quick action to enforce recovery of debts, using appropriate collection tools. To supplement collection efforts under this act, agencies are required to notify and transfer delinquent debts more than 180 days old to the Department of Treasury in an effort to collect, by offset, monies due. In addition, the DCIA allows for additional debt collection methods including the use of private debt collection contractors, reporting delinquencies to credit reporting bureaus, and referral to the Department of Justice for litigation.

The Indianapolis Center is one of the DFAS centers with debt collection responsibilities. It initiated a total of 167,385 new debts in the Defense Debt Management System (DDMS) amounting to \$153.4 million between October 1, 2008, and June 26, 2009, resulting in an average debt of \$917. In contrast, the average advanced education debt for disenrolled USAFA cadets that were the subject of this audit exceeded \$50,000. DFAS initiated only 145 new debts (of the 167,385 total) that exceeded the \$50,000 amount during the aforementioned period.

The DFAS Indianapolis Center performs debt collection activities for the Air Force.² Specifically, the Debt and Claims Management Office (DCMO) is responsible for the collection or settlement of debts owed the DOD by former military members, former DOD civilian employees, and other individuals including disenrolled USAFA cadets. The USAFA refers advanced education debt packages for disenrolled cadets with a financial obligation to the United States government to DFAS Indianapolis for collection. These debt packages include a transmittal letter with the name and social security number of the debtor, the amount of the debt owed, the debtor's last known contact information, accounting classification, and other debt-related documents to support the government's claim for recoupment. The USAFA mails these packages to DFAS Indianapolis.

DFAS Indianapolis routes the USAFA debt packages to the Special Actions Section of the DCMO. The Special Actions staff verifies the validity of the debt and establishes the new debt in DDMS. The DFAS Indianapolis DCMO uses the DDMS to establish, notify, manage, and monitor out-of-service debts. In addition, DDMS provides DCMO management the ability to review the status of current case files. DFAS Indianapolis regulations state that it is the supervisor's responsibility to monitor and promptly collect large accounts receivable balances.

Once a debt is established in DDMS, the Special Actions Section physically transfers the debt package to the DCMO Customer Operations Section to enter additional information in DDMS to generate an initial demand letter to the debtors. An initial demand letter states the debt, the collections process, and the contact information for DFAS Indianapolis. If debtors do not respond to the initial demand letter, DFAS sends a second

¹ Delinquent debt refers to a debt that has not been paid by the due date specified by the agency's initial written demand for payment.

² DFAS Denver Debt and Claims Management Office for Out-of-Service public debts migrated to DFAS Indianapolis in August 2008.

and, if necessary, a third demand letter. A debt becomes delinquent one day after the payment due date or other agreed upon date, depending on the agreement or instrument. Unless a specific exception applies, at 91 days, DDMS automatically transfers the debt to the Department of Treasury for additional collection efforts as indicated in Figure 2. The Customer Operations Section personnel also answer the Call Center phones and document their interactions with debtors in DDMS.

Review of Internal Controls

We determined that the following internal control weaknesses, as defined by DOD Instruction 5010.40, “Managers’ Internal Control Program Procedures,” January 4, 2006, existed in the collection process for advanced education costs from disenrolled United States Air Force Academy cadets. DFAS lacked appropriate monitoring controls which would ensure prompt establishment, initialization, and first notification to the debtor to support timely actions to recover and collect these debts. In addition, monitoring controls did not ensure prompt resolution of suspended debts. Implementing the recommendations in this report will improve the internal controls over the collection of accounts receivable from disenrolled United States Air Force Academy cadets. We will provide a copy of the final report to the senior official responsible for internal controls at the DFAS Debt and Claims Management Office.

Finding. Collection Process for Advanced Education Debts

The collection process for accounts receivable from disenrolled Air Force Academy cadets to recover advanced education costs was not effective. DFAS Indianapolis did not process these large debts on a priority basis and did not proactively manage the collection of the 130 disenrolled cadet cases valued at \$13.95 million, between April 1988 and March 2009. The collection process was not effective because DFAS Indianapolis debt collection procedures and processes did not:

- prioritize the initial set up, debtor contact, and collection actions for these large debts;
- perform timely notification to the debtor; and
- effectively manage the debt cases on the Expired Suspense Report.

As a result, DFAS:

- collected \$1.81 million (13.0 percent) on these advanced education debts;
- wrote-off \$2.52 million (18.1 percent); and
- reported a remaining outstanding balance of \$9.62 million, including \$7.21 million (74.9 percent) that were inactive and \$3.9 million that were more than 5 years old (40.5 percent).

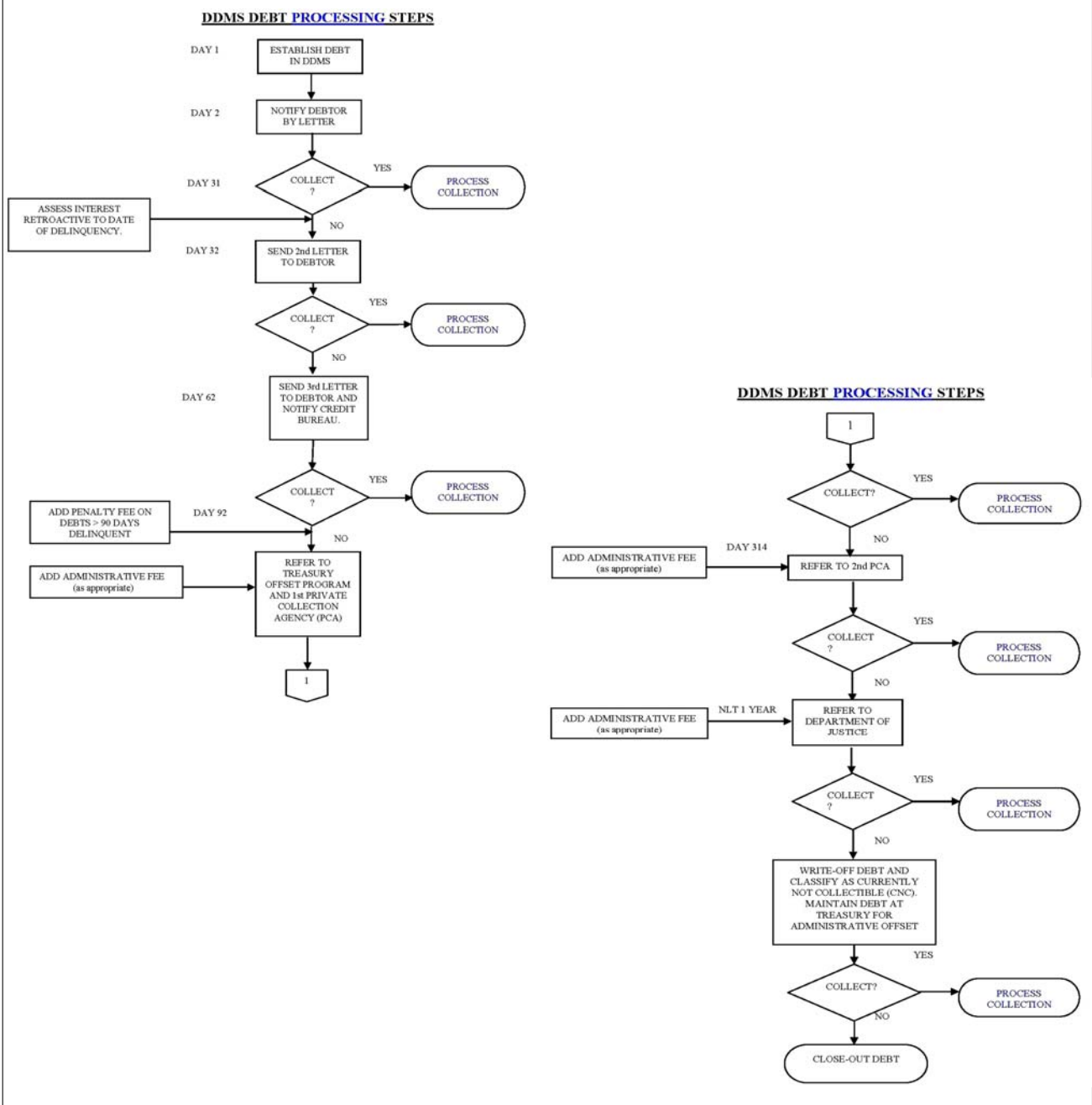
The Debt Collection Improvement Act of 1996

Congress enacted the Debt Collection Improvement Act of 1996 (DCIA) to maximize collections of delinquent debts owed to the Government by ensuring quick action to enforce recovery of debts and the use of all appropriate collection tools. DFAS is responsible for debt collection for the Department of Defense.

DOD Financial Management Regulation

The DOD Financial Management Regulation, volume 5, chapter 28, states, “DOD Components shall take prompt and aggressive action to recover and collect debts owed to DOD and to the United States and shall pursue continuing follow-up actions, as necessary to ensure that debts owed to DOD and to the United States are collected.” Volume 5, chapter 29, provides the flow chart depicted in Figure 2 that sets forth the various steps in debt processing in DDMS with established time frames. For instance, initial notification to the debtor should occur on Day 2 after establishing the debt in DDMS on Day 1. In addition, the chart indicates that delinquent debts should be referred to the Department of Justice within one year of delinquency.

**Figure 2. DOD FMR Flow Chart
DDMS Debt Processing Steps with Elapsed Times**



Age of Debt Affects Collections

The age of a debt directly affects the opportunity to collect it because the chances of collection decrease rapidly as the age of a debt increases. Debt collection statistics³ show that historical collection rates decline to 52.1 percent if a debt is 6 months old before collection starts. This rate falls to 39.1 percent at 9 months and 22.8 percent at 12 months. These statistics emphasize the importance of early communication with a debtor to increase the opportunity for increased collections. Administrative delays at DFAS Indianapolis in producing the first demand letter and starting communication with the advanced education debtors may significantly impact the ultimate collections amounts.

Debt Establishment and Initial Payment Demand

Historical Results

The time between the date that the United States Air Force Academy (USAFA) transmitted the debts to DFAS to the date DFAS established the accounts receivable and initiated the demand letter for payment was excessive. The excessive time was detrimental to initial collections on the accounts. We reviewed 87 of 130 transmittal letters⁴ from USAFA to DFAS for disenrolled cadets. The average period from the transmittal letter date to the debt establishment date shown in DDMS was 61 days. Further, the average elapsed period from the debt establishment date to the issuance of the initial demand letter was 87 days for 126 cases.⁵ Combining these elapsed periods shows that DFAS took an average of 148 days from the date of the transmittal letter to the date of the DFAS initial payment demand letter to the cadet.

Recent Processing

Through June 2009, DFAS established 167,385 new debts in DDMS for FY 2009. Only 145 of these new debts were \$50,000 or greater. In contrast, all but one advanced education debt exceed \$50,000. DFAS Indianapolis, Special Actions and Customer Operations Section process debt packages in the order received. DFAS does not give priority to these large debts owed by former Air Force Academy cadets because it processes debts on a first-in, first-out basis. DFAS had not made initial payment demand to four of the cases we reviewed as of the date of our site visit in June 2009. The average elapsed time since establishment of these four accounts in DDMS was 265 days. Because DFAS processes very few debts greater than \$50,000, DFAS could focus on these larger debts to prioritize and reduce the advanced education debt backlogs, and increase the overall likelihood of collections. DFAS Indianapolis can identify these large debts upon receipt and mark them for priority processing. By reducing the time required to establish these debts, the first demand letter could be sent in a more timely manner

³ Source: Collection Trends: Commercial Collection Agency Association Commercial Law League of America, "Collectability of Delinquent Commercial Debts At Time Intervals After The Due Date," undated, retrieved from www.harvestrecoveryonline.com/10-18-04COLLECTABILITYCHART.pdf, on July 10, 2009

⁴ USAFA only maintained transmittal letters from 2000 to the present. Of the 130 confirmed debt cases, only 87 transmittal letters were available for review.

⁵ Initial demand letters were not produced for 4 of the 130 cases we reviewed.

than under the current first-in, first-out process. Although DFAS Indianapolis should maintain a proper level of collection efforts for all accounts, priority handling of these larger debts would allow quick initiation of the debts and improve the prospect of collection.

Managing the Debt Collection Process

Historical Results

We obtained collection information as of June 2009 from DDMS for 130 disenrolled USAFA cadets submitted to DFAS for collection since 1988. These cases averaged \$107,343 making them some of the largest individual debts for DFAS collection. We reviewed the date of the first collection shown in DDMS for 107 disenrolled cadet cases (there were no collections on 23 cases) and determined the average elapsed period from the date of the first demand letter was 551 days. This lengthy period indicated that DFAS needed a more proactive collection process. The additional interest, administrative fees, and penalties (IAP) increased the amount debtors owed, potentially making the collection process even more difficult. Decreasing this elapsed period would also reduce IAP that applies to a debt.

As shown in Table 1, DFAS collected \$1.81 million (13.0 percent) of the \$13.95 million original debt amount submitted for the 130 advanced education debt cases (not including \$0.65 million IAP collected). During the same period, DFAS wrote off \$2.52 million (18.1 percent) of such amounts as uncollectible (not including IAP).

Table 1. Historical Results for Recoupment of Advanced Education Costs for Disenrolled Air Force Academy Cadets April 1988 to June 2009		
	Amount of Debt (millions)	Percentage of Total
Submitted for collection	\$13.95	100
Collected	1.81	13
Written off (Uncollectible)	2.52	18
Debt Outstanding	9.62	69

As of June 2009, DFAS' ineffective collection process resulted in an outstanding balance of \$9.62 million that was largely inactive (74.9 percent) and significantly aged (40.5 percent were more than 5 years old). Inactive accounts have no payments during the prior 90 days. Collections of original debt principal for the accounts more than 5 years old were less than 10 percent (not including \$0.29 million IAP collected). Changes in the collection process for these advanced education debts could increase collections and reduce long outstanding inactive accounts.

Collections for the Period June 2008 – June 2009

During the 12 months before our site visit to DFAS Indianapolis in June 2009, DFAS collected only \$0.41 million (4.1 percent) on an average outstanding balance of \$9.90 million for the advanced education debts. Table 2 shows these collections by aging group for the related accounts. DFAS did not make any collections for accounts established within this 12-month period. In addition, according to DDMS, 74.9 percent of the balance outstanding for advanced education debts was inactive during this same period. The collection process during the 12 months prior to June 2009 continued to produce results generally comparable to the historical results from April 1988 to June 2009.

Table 2. Collections During Latest 12 Months by Aging Category (\$ thousands)				
Age of Debt	Number of Debts*	Average Balance Due	Collections June 2008 to June 2009	Percentage Rate of Collection **
More than 5 years	53	\$4,487.9	\$371.7	8.3
1 to 5 years	39	4,981.9	32.8	0.7
Less than 1 year	6	432.5	0.0	0.0
Totals	98	\$9,902.3	\$404.5	4.1
* Includes nine debts that were closed during the 12-month period.				
** Collections on average balance due.				

During our site visit we reviewed the DFAS collection process. Our interviews with DCMO personnel and review of data from DDMS indicated a collection process that relies on automated processes for initial communications with debtors and responses to inquiries from debtors. DFAS was not proactive in its outreach to collect and settle large advanced education debtors. Limited debt collection actions can significantly age accounts receivable and lessen the opportunity for substantial collections. We reviewed the account notes in DDMS for the inactive accounts and did not find any indications that DFAS contacted the cadets.

DFAS may suspend accounts receivable, including advanced education debts, from collection action for various reasons. Examples of suspense actions include challenges by the debtor requiring resolution, financial hardship, submitting the account to a private collection agency, bankruptcy, and preparing the package to refer the debt to the Department of Justice. Typically, when DFAS places an account in a suspense status, a standard time period was set after which collection actions should resume. On that elapsed date, DDMS reports the account on the Expired Suspense Report. DFAS personnel should review this report daily to identify accounts for follow up. DCMO personnel stated that DCMO had not worked the expired suspense file report since September 2008. This report functions as a management control to resume collection activity for the debts listed. Of the 89 open advanced education debts from the USAFA, 32 (36.0 percent) appear on the June 2009 report. Their average period since expiration of suspense status without the necessary manual intervention was 152 days. Reviewing

these accounts on a timely basis would allow DFAS staff to involve management earlier in the process for delinquent account resolution. The staff should review accounts on the Expired Suspense Report daily and involve management for timely decisions regarding enforced collection, including early referral to Department of the Treasury or Department of Justice, or engaging with debtors on adjustments to their payment schedule or the amount owed.

Call Center Response to Debtors

DFAS could improve the Indianapolis Call Center's response to debtors. Debtors contact the Indianapolis Call Center information and account resolution services personnel. The Call Center established two performance metrics: the Average Speed to Answer (ASA), and Abandoned Calls. The ASA metric establishes a highest acceptable time to answer of 90.5 seconds. The Abandoned Calls metric establishes a highest acceptable rate of abandonment as 15.5 percent of calls coming into the call center.

The center received 19,433 incoming calls in June 2009. The automated Interactive Voice Response System⁶ handled 6,392 of these calls. The remaining 13,041 incoming calls were routed to an average of 11 Call Center staff who answered 9,636 (73.9 percent) of those calls. The ASA for June 2009 was 478 seconds (7 minutes and 58 seconds). DFAS identified the remaining 3,405 (26.1 percent) calls as abandoned. Personnel at the Call Center did not meet the metrics on either of the primary goals. The relationship between a debtor's call center experience and collections from the debtors was not directly measurable. However, with 26.1 percent of the calls abandoned and a nearly 8 minute average wait time for answering, the Call Center may not be contributing to a positive collection process for the larger advanced education debts. DFAS should establish special protocols for the larger debts.

Conclusion

The debt collection process at DFAS Indianapolis hampered the effectiveness of the collection for the advanced education debts. Because DFAS did not give priority to these large debts, long periods elapsed before personnel sent the first payment demand on new accounts and those debts remained in suspended status without follow up for longer periods. To make collection efforts more effective, DFAS must apply proactive management of the recoupment process for large debt that included advanced education cost debts. DFAS Indianapolis need take action to decrease initial debt set up and contact times, and facilitate active collection processes for these large debts to improve collections.

⁶ The Interactive Voice Response System is an automated telephony system that interacts with callers, gathers information, and routes calls to the appropriate recipient. An Interactive Voice Response System accepts a combination of voice telephone input and touch-tone keypad selection and provides appropriate responses in the form of voice, fax, callback, e-mail, and perhaps other media.

Recommendations, Management Comments, and Our Response

Revised Recommendation

As a result of the Director, Defense Finance and Accounting Service Indianapolis, management comments, we revised recommendation 4 to remove the recommendation to establish a special phone number for large debtors. Management indicated significant improvements in the Contact Center average speed to answer incoming calls. These improvements, if maintained, meet the intent of the recommendation to provide timely contact to accounts with large (\$50,000 or greater) balances and allow priority handling of calls.

We recommend that the Director, Defense Finance and Accounting Service, Indianapolis implement changes in the collection process for large debts that include advanced education debts for disenrolled Air Force Academy cadets. Specifically, while continuing to meet its general collection goals for all accounts receivable, establish a special collection protocol for large debts that implements procedures to:

1. prioritize large debts upon receipt and reduce the time to establish those cases in the Defense Debt Management System and make initial payment demand;

Defense Finance and Accounting Service Comments

The Director, Defense Finance and Accounting Service, Indianapolis, agreed with the recommendation. The Director stated that process modifications will allow all DCMO debts of \$50,000 or higher to be prioritized.

Our Response

The Director's comments were responsive and met the intent of the recommendation. No additional comments are required.

2. ensure that Defense Finance and Accounting Service staff begin resolution for these debts within one day of their appearance in the Expired Suspense Report;

Defense Finance and Accounting Service Comments

The Director, Defense Finance and Accounting Service, Indianapolis, agreed in principle, stating that resolution will occur within 5 days for debts of \$50,000 or greater after being added to the Expired Suspense Report due to resource limitations.

Our Response

The Director's comments were responsive and a resolution process beginning within five days after accounts appear on the Expired Suspense Report meets the intent of the recommendation. No additional comments are required.

3. seek collection from these larger debtors on a priority basis including requesting management decisions regarding enforced collection through Treasury

or Department of Justice, or engaging with debtors on adjustments to their payment schedules or the amount owed; and

Defense Finance and Accounting Service Comments

The Director, Defense Finance and Accounting Service, Indianapolis, did not concur with this recommendation, stating that process changes to prioritize debts \$50,000 or larger addressed in Recommendation 1 would allow initial demand letters to be issued within 30 days of DFAS receiving the account for collection. The Director also stated that a checklist is available and provided for customers to aid in submitting debt packages to DCMO to reduce rejects. Additionally, the Director recommended that the Service representatives submit debt packages in a timely manner to improve collection efforts. The Director noted that the auditors and management discussed the timeliness and accuracy of these debts during the audit but this was not included in the IG report.

Our Response

The Director's comments were partially responsive. The process changes to issue initial demand letters to large debtors within thirty days are a positive step in the right direction. We discussed the timeliness and accuracy of the debt package submissions with DFAS personnel during the audit. While we agree with the Director that receiving debt packages as soon as practicable and reducing rejects of packages submitted to DFAS for collection is desirable, the recommendations only addressed DFAS actions after receipt of a valid debt package. The intent of this recommendation was to encourage collection efforts for large debts (\$50,000 and greater) on a priority basis once a valid debt package is received by DFAS. Specifically, we recommended more active collection management at decision points throughout the collection process after initialization of the debt. We request additional comments from the Director to include specific actions planned for management personnel to become actively involved as early in the collection process as feasible. Experienced management personnel would be able to achieve more fixed payment arrangements, make decisions regarding early referral to Treasury or the Department of Justice, and engage with the large debtors to determine adjustments to original payment schedules or compromise of the amount owed with the objective of increasing cash collections.

4. provide specially trained and experienced staff at the Call Center to handle incoming calls from large debtors.

Defense Finance and Accounting Service Comments

The Director, Defense Finance and Accounting Service Indianapolis, non-concurred with the original recommendation which included recommending establishing a special phone number for large debtors, stating that improved performance at the Contact Center negates the need for a dedicated phone number and staff. Additionally, DCMO will annotate larger debts to alert Customer Service Representatives when answering the calls.

Our Response

The Director's comments were partially responsive. We agree that the improved performance at the Contact Center cited by the Director, if maintained, would negate the

need for a special phone number for large debtors and have revised the recommendation accordingly. However, improved average speed to answer incoming calls does not resolve the need for special handling of phone calls with large debtors to achieve increased cash collections. DFAS should provide specially trained, experienced staff, knowledgeable in the additional challenges in collecting or resolving these large debts to work with these accounts. Such specially trained staff would involve management in the collection process when necessary and improve the collection rates for these individuals. We request that the Director reconsider the revised recommendation and provide additional comments including a discussion of actions taken or planned that would result in specially trained and experienced staff to handle large debtor contacts and make timely referrals to management for collection decisions that would increase cash collections.

Appendix: Scope and Methodology

We conducted this performance audit from May 2009 through May 2010 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

We performed the audit of the debt collection procedures to recoup advanced education costs from disenrolled USAFA cadets to determine if the procedures were effective. We conducted the audit work at the USAFA Colorado Springs, and DFAS Indianapolis. At each site, we interviewed applicable personnel, performed walkthroughs of the debt collection process, and gathered supporting documentation, procedure manuals, organization charts, and management reports.

The universe of disenrolled USAFA cadets with advanced education debts that we reviewed consists of 130 debt cases with establishment dates between April 1988 and March 2009. See Table 1 in this report for a summary. We obtained a listing of debt cases from USAFA files during a site visit. We obtained a listing of currently open debt cases and a listing of previously closed (deleted) debt cases from DDMS during our site visit to DFAS Indianapolis. We reconciled these listings to compile a universe of known USAFA advanced education debt cases. Because of limited record retention at each site, we do not have absolute assurance that the universe contains all disenrolled USAFA cadets with advanced education debts submitted to DFAS for collection. However, we determined that this universe was sufficient to meet our audit objective.

We obtained account information for these debt cases from DDMS to review their collection history and dates for various events during the collection process. Specifically, we reviewed the:

- summary collections and write-off history for each debt,
- timing of the debt establishment into DDMS,
- timing to send the first debt demand letter,
- period the account balances have been outstanding, and
- status of such debts that were suspended from the collection process.

In addition, we reviewed the procedures of the debt collection process at DFAS Indianapolis and considered the effectiveness of the procedures for these large individual debt cases. For our review, we defined large individual debt cases as accounts receivable which were \$50,000 or greater.

Use of Computer Processed Data

We relied on computer-processed data from the Defense Debt Management System to prepare this report. Specifically, we obtained summary financial information for original debt amounts, collections, write-offs, and current balances outstanding as well as the dates for events during the collection process. We examined source documents to include

transmittal memorandums, correspondence, and worksheets related to USAFA advanced education debts to conclude that the DDMS population of such accounts was reliable for our purposes. We used the summary information to compute population statistics such as average lengths of time; cumulative collections for, and write-offs of, accounts receivable; and accounts receivable aging. We did not test detail transactions because the use of averages and summary financial totals was adequate to meet our audit objective and support our recommendations.

Prior Coverage

There was no prior audit coverage conducted on the recoupment of advanced education debts from disenrolled academy cadets during the last 5 years.

Defense Finance and Accounting Service, Indianapolis Comments

Final Report
Reference



DEFENSE FINANCE AND ACCOUNTING SERVICE
8899 EAST 56TH STREET
INDIANAPOLIS, INDIANA 46249

MAY 25 2010

DFAS-JBI/IN

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Draft Report, Recoupment of Advanced Education Costs from Disenrolled
Air Force Academy Cadets (Project No. D2009-D000FD-0205.000)

The Defense Finance and Accounting Service Indianapolis (DFAS-IN) is providing management comments to Recommendations 1, 2, 3, and 4 for the subject Draft Report.

DFAS-IN concurs with the process modifications specified in Recommendations 1 and 3 for debts that are greater than \$50k. DFAS-IN non-concurs with recommendations 2 and 4 due to processing limitations.

In addition, DFAS-IN recommends that consistency within the report be maintained by using either Debt and Claims Management Office or DCMO in reference to Debt and Claims. DFAS-IN requests that an explanation of the comment stating "transfer delinquent debts more than 180 days old to the Department of Treasury" be made as the actual referral is at 91 days.

My point of contact for Accounts Receivable is [REDACTED]

[REDACTED]
fr Director, DFAS Indianapolis

Attachments:
Management Comments

Your Financial Partner @ Work

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Recoupment of Advanced Education Costs from Disenrolled Air Force Academy Cadets, Project No. D2009-D000FD-0205.000

Recommendation: We recommend that the Director, Defense Finance and Accounting Service, Indianapolis implement changes in the collection process for large debts that include advanced education debts for disenrolled Air Force Academy cadets. Specifically, while continuing to meet its general collection goals for all accounts receivables, establish a special collection protocol for large debt that implements procedures to:

1. Prioritize large debts upon receipt and reduce the time to establish those cases in the Defense Debt Management System and make initial payment demand;

Management Comments: Concur. Current process modifications will allow for the small number of debts of \$50k or higher received by DCMO to be prioritized. This change will be for all DCMO debts of this amount, and not limited to Air Force Education debts.

Estimated Completion Date: July 1, 2010

2. Ensure that Defense Finance and Accounting Service staff begin resolution for these debts within one day of their appearance in the Expired Suspense Report;

Management Comments: Concur in principle. DCMO will begin resolution within 5 days for debts of \$50k or greater being added to the Expired Suspense Report due to resource limitations.

Estimated Completion Date: July 1, 2010

3. Seek collection from these larger debtors on a priority basis including requesting management decisions regarding enforced collection through Treasury or Department of Justice, or engaging with debtors on adjustments to their payment schedules or amount owed; and

Management Comments: Process modifications will allow for debts of \$50k and greater to be validated, established, and the initial due process letter issued within 30 days of receipt of a valid debt package received from the customer/field site/office/Service. A checklist is available and provided for customers to use in ensuring proper packages are referred to DCMO per regulatory guidelines, in order to reduce rejects. DCMO recommends the Service representatives forward delinquent debt packages in a timely manner to the DFAS to improve collection efforts. The timeliness and accuracy of these debts was discussed, but not included, in the IG report.

Estimated Completion Date: July 1, 2010

4. Establish a special phone number at the Call Center for the large debtors and allow priority handling of their calls by experienced staff.

**Recoupment of Advanced Education Costs from Disenrolled Air Force Academy
Cadets, Project No. D2009-D000FD-0205.000**

Management Comments: Non-concur with comment. Modifications to the DCMO Contact Center have resulted in an Average Speed of Answer (ASA) of 64 seconds and an Abandoned Rate of 4% for April 2010. The improved performance of the Contact Center will negate the need for a dedicated phone number and staff. DCMO will annotate high dollar value debts/debtors in DDMS when establishing debts to alert Customer Service Representatives of the customer type when answering an inquiry.

Revised



Inspector General Department of Defense

